

Rating Action: Moody's Ratings affirms Covea Cooperations' Aa3 IFS rating; outlook stable

4 November 2024

Paris, November 4, 2024 – Moody's Ratings (Moody's) has today affirmed the Aa3 insurance financial strength rating (IFSR) of Covea Cooperations, the outlook remains stable.

RATINGS RATIONALE

The affirmation of Covea Cooperations' rating reflects Covea group's leading position in the French property and casualty (P&C) market, its good business diversification between life, non-life (including among personal and commercial lines) and global reinsurance, as well as its improved geographical diversification since the acquisition of PartnerRe Ltd. (PartnerRe) in 2022. Covea group also exhibits sound financial fundamentals, including a strong capitalization and a very good financial flexibility compared to most highly-rated peers. Operating performance is generally solid through the cycle, although lately affected by weak non-life profitability in France and the UK, and the quality of the investment portfolio is good but with some notable exposure to equities and real estate.

Following the acquisition of PartnerRe in 2022, Covea group has expanded its product lineup and geographical reach, achieving a balanced revenue mix from its diverse operations. In 2023, non-life primary activities accounted for 50% of gross earned premiums, life insurance for 13%, non-life reinsurance for 26%, and life reinsurance for 11%. Geographically, 59% of premiums originated from France, 18% from other European countries, 18% from North America, 3% from the Asia-Pacific region, and 2% from other areas. However, the acquisition also impacted Covea group's Solvency II ratio, which, under the standard formula, dropped to 200% at the end of 2023 from a pre-acquisition high of 351% at the end of 2021. Despite this decrease, the group's capitalization remains strong, supported by very low financial leverage and its ability as a mutual organization to retain most of its earnings annually. Additionally, the solvency ratio shows limited sensitivity to interest rate fluctuations, benefiting from the group's modest exposure to life insurance activities.

As concern profitability, the group is navigating challenging operating environments in both France and the United Kingdom, with damage cost inflation and natural catastrophe events impacting the profitability of non-life insurance activities. Consequently, the combined ratio for French non-life activities rose to 102.0% in 2023, up from 99.1% in 2022, a trend mirrored by other French insurers and expected to persist into 2024. Despite these challenges, we expect rate increases that would bring Covea group's French non-life combined ratio back below 100% within the next two years.

STABLE OUTLOOK

The stable outlook reflects our expectation that the group will improve its already sound financial fundamentals, through an increase in its solvency II ratio to well above 200% and through a sustained improvement in the profitability of its leading French non-life business.

FACTORS THAT COULD LEAD TO AN UPGRADE OR DOWNGRADE OF THE RATING

While unlikely at present, we could upgrade the IFSR if Covea group achieved greater profitable diversification of the business outside of France and in life insurance, along with a significant strengthening of capital levels while keeping financial leverage very low.

Conversely, we could downgrade Covea Cooperations' IFSR in case of (i) a material reduction in the group's capital, as evidenced by a Solvency II ratio remaining consistently below 230%, combined with an increase in financial leverage above 30%, (ii) a reduction in profitability, as evidenced for example by a combined ratio sustainably above 100%, combined with a sustained increase in the volatility of earnings, or (iii) a significant deterioration in its asset quality, for example in the case of a deterioration in the credit quality of the Government of France (Aa2 negative), as evidenced by a downgrade of more than one notch of the sovereign rating.

PRINCIPAL METHODOLOGIES

The methodologies used in this rating were Life Insurers published in April 2024 and available at <https://ratings.moodys.com/rmc-documents/418351>, and Property and Casualty Insurers published in April 2024 and available at <https://ratings.moodys.com/rmc-documents/418354>. Alternatively, please see the Rating Methodologies page on <https://ratings.moodys.com> for a copy of these methodologies.

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